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INTELLIGENCE HIGHLIGHTS NO. 81
14 DECEMBER to 20 DECEMBER 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS
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Establishment of satisfactory treaty relations between China and the West is made improbable by the Communist view that a similar action is "friendliness" on the part of the USSR but "imperialism" on the part of the West (p. 3). In this connection, however, a recent Communist economic report on Manchuria omits all reference to USSR influence there (p. 3).

In view of recent political disturbances in Vietnam, the French attitude of optimism over Indochinese affairs seems unrealistic (p. 5).

Although colored in part by ideological affinity, Burma's recognition of the Chinese Communist regime appears primarily dictated by hard political realities (p. 5).

Plans for a campaign against West Java dissidents and for the policing of Batavia during President Sukarno's inaugural mark the first steps of the USI toward establishing law and order (p. 6).

Recent measures to end the unfavorable balance of Philippine-US trade have not lessened rumors of a possible peso devaluation (p. 7).

The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in D/FE opinion with "A" representing the most important.

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-3-

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CHINA

Communist suspicion of existing treaties--The Chinese Communist line regarding existing treaties and agreements, which states that the Peiping regime will examine the treaties concluded by the Nationalists individually and will repudiate or accept each on its own merits, has been somewhat illuminated by recent information from Peiping suggesting that the Communists "literally do not know" what treaty obligations they have inherited. An advisor to the Communists reports that they have been "entirely unsuccessful" in their effort to assemble authentic texts of treaties. In addition, the Communists are convinced that all Nationalist treaties include provisions "betraying" Chinese interests, and that, if no such clauses can be found in published material, they are doubtless included in "secret protocols."

These considerations may partially explain the reluctance of the Peiping regime to commit itself, prior to recognition, in regard to particular treaties with the West. However, provisions which in a Sino-US treaty are characterized in Party propaganda as "traitorous," are hailed as evidence of Soviet benevolence in a Sino-Soviet treaty. For instance, the Communists have repeatedly denounced the Nationalists for permitting the stationing and provision of bases for foreign armed forces in China, for allowing foreigners freedom of residence and travel, for welcoming foreign investments, for permitting joint operation of Chinese railways, for permitting foreigners to disseminate propaganda and for following the line of another nation in the formulation of foreign policy. Yet such actions as these are obvious features of present Sino-Soviet relations and will doubtless be formalized in future Sino-Soviet treaties. So long as one nation's "colonizing" is another nation's "fraternal aid," it will be extremely difficult for the West to conclude reasonable and equitable treaties with Communist China.

Manchurian economic autonomy increasing--A recent official Chinese Communist report on present economic conditions in Manchuria and the 1950 economic program for that area explicitly acknowledges that Manchuria has diverged from the rest of China in being the leader in reconstruction and in maintaining the use of a separate currency. In the report, presented recently to the fourth meeting of the "Central People's Government Council" in Peiping, considerable care was taken to point out that these steps have been taken in an effort to insulate Manchuria's potentially more prosperous

-4-

economy from that of China and that the actions contribute both to the immediate and ultimate benefit of China as a whole. The "Leadership of Chairman MAO" was twice acknowledged in the report and it was emphasized that these measures were undertaken according to the "instructions of Chairman MAO."

Although the report implicitly promises the future convergence of the two economies when China has achieved the stability now claimed for Manchuria and specifically promises currency unification at that time, the document is strongly nationalistic. An attempt is made to minimize and apologize for the evident differences between the administrative and economic treatment of China proper and Manchuria. Significantly, no reference is made to Soviet "friendship", "assistance," or even doctrinal inspiration, while transportation and foreign trade, the two segments of the Manchurian economy most dominated by the USSR are ignored. Neither does the report mention other differences between the status of Manchuria and China proper which are well-known or at least suspected throughout China. Soviet authority is known to be strong in the Kwantung Peninsula, and has probably extended over much of the economy outside the Dairen area. Stricter travel and trade controls and the greater suppression of private enterprise also emphasize the special status of Manchuria.

The intent of the Communist Party leadership in publicly disseminating the report appears to be to allay Chinese suspicions that Manchuria is lost to China. If effective, this would decrease opposition in China to the apparent priority assigned Manchuria for investments, machinery and skilled personnel and Manchuria's favored position in the 1950 budget.

NEWS NOTES

MAO Tse-tung's visit to Moscow, his first known trip outside China, is an impressive act of homage to Comrade Stalin and a means of underlining Sino-Soviet "friendship." The Moscow ceremony may provide occasion for an announcement on the progress of a new Sino-Soviet treaty of friendship and alliance. Friends of MAO will be pleased to note that he has shed the cotton-padded uniform of Yanan days and now sports a natty fur-trimmed greatcoat.

Significant Sino-Soviet trade developments were reported during the week. The USSR has chartered the RETELEMAN HULLS, a US tanker, to transport kerosene from the Black Sea to North China at the end of December. The Chinese Communists, in turn, have increased exports to the USSR, shipping bristles valued at \$3 million in the past three months. Reports of a Polish trade mission en route to China indicate that Soviet satellites, too, may be attempting to make trade contacts with Communist China.

-5-

INDOCHINA

French optimism in Vietnam unwarranted---Although statements from the French Foreign Office regarding "progress" in Vietnam have been couched in optimistic terms, recent developments there indicate the persistence of serious problems. While the French continue to promise Vietnam "independence within the French Union," as the consequence of anticipated ratification of the 8 March Accord and transfer of administrative "authority" to Bao Dai by 31 December, even non-resistance Vietnamese leaders, who have become increasingly wary of French promises, are now insisting upon immediate and unrestricted independence. Viet spokesman, using radio facilities under Bao Dai's control, have accused France of an imperialism as tyrannical as that of the USSR and have broadly intimated that France's policy is to deny "real" independence. As this belief increases, chaotic conditions in the country are being aggravated and French efforts to control the situation are thereby proportionately complicated.

The French have recently been faced with a variety of such disorders, including a wave of student protests against French arrests of Vietnamese who cooperated with the resistance and a number of strikes which, while nominally inspired by wage issues, actually appear to have been politically motivated. It is reported that certain labor leaders have been "persuaded" to call the strikes by threats on their lives from resistance agents.

Far from developing more favorably for the French, therefore, the situation in Vietnam appears to be deteriorating. If Ho Chi Minh's forces obtain aid from the Chinese Communists who now stand adjacent to the Indochinese border, the French position in Vietnam can be expected to worsen sharply. The imminence of such a development may be indicated by a recent resistance announcement that its long-heralded "general counteroffensive" is shortly to begin. If this is true, it is believed that the French probably will be forced to withdraw from most of Tonkin within a year.

BURMA

Recognition of PRC---Burma's recognition of the "People's Republic of China" on 17 December, while motivated in part by a degree of ideological congeniality, was also a response to practical political considerations. The action will be accepted as a realistic step, if not with enthusiasm, by practically all politically articulate Burmese, a great many of whom (including many Government officials) strongly sympathize with at least the publicized objectives of the Chinese Communists.

-6-

From a practical point of view, however, the Government of Burma probably considered recognition an expedient yielding to the prodding of the Burma Socialist Party -- the majority party in Parliament and the Government's chief supporter -- which feels a close affinity to the Chinese Communists and their program. Furthermore, the Government undoubtedly desires to avoid antagonizing a strong China and hopes to forestall aggressive Chinese action, especially with regard to the undefined portion of the Sino-Burmese border in the north. In order to reduce the possibility of interference in Burmese affairs during this period of near chaos, however, the Burmese Government may attempt to delay the exchange of diplomatic representatives with China. All things considered, the act of recognition does not entail a fundamental change in either Burmese foreign policy or orientation.

Meanwhile, Foreign Minister E Maung, one of the more conservative and perhaps the most able member of the Burmese cabinet, is reported to have announced his imminent resignation in order to become Chief Justice of the Burmese Supreme Court and rumors persist that the Socialists will reenter the Cabinet in the near future. Under such circumstances, and especially if the Socialists take control of the Foreign Ministry, it is highly possible that they will seek to exchange diplomatic personnel with the Chinese Communists, thus facilitating Burma's possible alignment in the Communist orbit.

INDONESIA

First USI steps toward internal security---Indonesian leaders are now preparing to meet their first immediate problem -- the maintenance of law and order throughout the archipelago. During recent months, Java, where Communists and fanatic rightist Moslem factions have created serious disorders in the eastern and western sections of the island, has been the most critical area in the USI. The Republican Minister of Defense, who will assume responsibility for the emergent nation's internal security, is now reported ready to launch a military drive against rebel elements in West Java. As a first step, a military governor of West Java has been appointed. The Minister of Defense, however, is more concerned over the possibility of disturbances in Batavia, where there will be a huge influx of the population to witness President Sukarno's entry on 28 December. TNI (Republican Army) troops will not be permitted to enter the city until 28 December, thus giving them little time to deal with irresponsible elements in advance. Although there is still considerable unrest from Surabaya to Malang in East Java, the Minister of Defense does not expect a critical situation to develop in that region, temporarily under martial law.

-7-

Meanwhile, arrangements have been reached with the Federal "negaras" of East Sumatra and South Sumatra for the entry of TNI forces who will cooperate with "negara" police to maintain law and order. Among Sumatran centers already selected for the concentration of withdrawing Dutch troops is the region comprising the US oil refinery at Palembang and US oil interests at Djambi. Significantly, neither the Dutch civil resident at Palembang nor oil company officials are concerned about conditions during or immediately after the transfer of sovereignty.

PHILIPPINES

Related Government steps to protect dollar reserves--The Philippine Republic which, since the war, has been spending dollars at a prodigal rate relative to earned income, has ordered that all transactions in gold and foreign exchange henceforth be subject to license by the Central Bank. This is the most drastic of several actions-recently taken to protect the country's dollar reserves-which restrict historic Philippine free trade with the US and, by the terms of the US-Philippine Trade Agreement of 1946, the measure required the consent of the President of the US.

Although large post-war US Government expenditures in the Philippines for rehabilitation, veterans' payments, and the like, have helped to restore the country's productivity, the resultant availability of dollars at the same time has fostered a habit of Philippine consumption of US products well beyond the amount that the country can finance by its exports. The import of "luxuries and non-essentials" was restricted nearly a year ago, but the Government controls, mild in form and loosely administered, had little effect.

Falling prices for Philippine exports during 1949 have complicated the problem of correcting the Republic's heavily unfavorable balance of trade. The Administration, moreover, preoccupied with the national election campaign and reluctant to discommodate any possible supporters, deferred further action to conserve Philippine dollar reserves, with the result that these declined from \$410 million on 1 January 1949 to \$290 million on 31 October.

Immediately following the election, on 17 November, the Central Bank put restrictions on private banks' issuance of letters of credit for certain imports. This action was followed, on 29 November, by a new import control order greatly reducing import quotas and adding new items to the controlled list.

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-8-

The decline in the dollar reserves of the Central Bank, even after the unfavorable trade balance was offset by continued large US Government expenditures, gave substance to rumors that a significant flight of Filipino capital was taking place in anticipation of exchange controls or possible devaluation of the peso. The exchange control order has not served to dispose of rumors of devaluation.

An important bar to the effectiveness of control measures in the Philippines is the country's acute lack of personnel with the competence and integrity to carry out proper administration. With the prospect of declining US expenditures in the Philippines during 1950, it is not at all likely that the measures taken thusfar will solve the Philippines' financial problems, although the measures are evidence of an increasing, if belated, awareness of these problems on the part of the Quirino administration.

S.E.A. NEWS NOTE

In the Philippine island of Sulu, the Constabulary sustained unusually heavy losses during the past week in operations against an estimated 1,000 disgruntled Moros. The greatest threat to Philippine peace and order during the week, however, resulted from the reluctance on the part of special police and civilian guard units, hired by the Government to preserve order during the November elections, to disband and return their arms as ordered. The estimated 10,000 firearms possessed by these groups are intrinsically worth more than the pay which they would receive. The Government will thus have difficulty in compelling an immediate arms surrender.

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- 4 -

recognition hastily; and that India, although retaining freedom of action, will not recognize the Peoples' Republic prior to discussions with the West. However, these nations will be exposed both to the physical fact and to the psychological pressure of Communist China's existence. In general, the weaker governments of Asia can be expected to maintain a firm attitude toward Communist China only insofar as they feel assured that the West will both encourage their own political aspirations and provide economic and military assistance for development and defense.

The pressures on Western nations, especially the UK, derive from the vulnerability of their nations and possessions in China, their desire for trade with China, and perhaps a difference of opinion as to the most effective means of exerting influence on the Peoples' Republic. The UK, with extensive interests in China, has appeared to favor a policy of recognition and trade (with restrictions on strategic materials), although formally disposed, as are other Western European powers, to maintenance of a united front with the US. Western unity on the recognition question, however, probably cannot be maintained for long, unless these nations come to realize that they will gain no special advantage by a display of eagerness for political and economic relations with Communist China.

Implications of Kwangtung's fall--The impending Communist occupation of Canton and the coast of Kwangtung province will end the possibility of large-scale, externally-supplied war materials reaching PAI Chung-hsi's troops -- the largest unconquered anti-Communist force on the mainland of China. With the fall of Canton, PAI's armies will become the Communists' next logical objective and their early removal as a significant anti-Communist force is a strong probability. Without any prospect of outside supply, PAI will be forced to conserve his already limited supplies of arms and ammunition and therefore will be unable to undertake the static defense at any point. As he withdraws into southern Kwangsi, PAI will find his area of maneuver successively curtailed and his combat potential draining away until he possesses only a limited ability to wage guerrilla warfare. "B"

Politically, the occupation of Kwangtung province will give the Chinese Communists control of a solid block of territory stretching from the Siberian border to the south China coast, strengthening the new Peoples' Republic's claims to sovereignty, despite the fact that Taiwan and large areas of west and southwest China will still remain free of Communist authority. The takeover of Canton will give the Communists another attack of political and economic indigestion, but the lessons learned in Shanghai may help to reduce its severity. Internationally, the Communists will make contact both with the Communist-led nationalist Vietnamese in Indochina and with the British in Hong Kong and the future plans of the Chinese Communists respecting these areas will become matters of immediate concern.

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- 5 -

NEWS NOTES

Peiping radio has advised HU Tsung-nan, whose troops guard the northern borders of Szechwan, to "atone for his misdeeds". Such warnings have often preceded Communist offensives in the past.

In addition to the USSR and its eastern European satellites, Yugoslavia, Outer Mongolia, and North Korea have accorded recognition to the new "Peoples' Republic of China." While there is some doubt that the Communists will exchange ambassadors with the heretics in Belgrade, the first Soviet Ambassador to the Chinese Communists, General Roshchin, has already arrived in Peiping.

The president of the Sino-Soviet Friendship Association in Peiping, LIU Shao-chi, in a lengthy speech commemorating the fact that China and the USSR have, for the past 30 years, "loved each other like brothers", made several references to USSR assistance to the Chinese Communists.

Acting President LI Tsung-jen is scheduled to depart Canton for Chungking on 12 October and foreign diplomatic missions have been advised to prepare for the move.

The Nationalist Navy finally released the two detained Isbrandtsen Line ships with their cargoes intact. Another Isbrandtsen ship is now loading in Shanghai and a fourth vessel of the same line is scheduled to leave Hong Kong for Shanghai in the near future.

INDOCHINA

Internal difficulties in Cambodia—While representatives of the Kingdom of Cambodia wait in Paris to sign a Franco-Cambodian treaty closely resembling the 8 March Agreements with Vietnam, that Kingdom's internal difficulties and problems have been on the increase. Cambodia's King Norodom dissolved the National Assembly in late September, apparently to prevent its publicly opposing the signing of the accord. Immediately afterwards, the cabinet of ineffective Premier Sambaur resigned. National elections, required by constitutional law within two months following the Assembly's dissolution, have been postponed indefinitely on the grounds of "insecurity" in the provinces. Meanwhile, a provisional cabinet, with only minor changes, has been formed by Sambaur and, in lieu of an Assembly, the King will exercise legislative power and control the executive actions of his ministers. "B"

Cambodian relations with South Vietnam represent an additional difficulty and the problem of Cambodian minorities in the border provinces of the

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- 6 -

two areas is particularly vexatious. The Cambodian Assembly, before dissolution, had demanded border adjustments as well as various waterway and port guarantees in South Vietnam, concessions which France has found impossible to grant. Economic difficulties also plague the Kingdom, business is poor and the cost of living has risen almost to Saigon extremes.

These difficulties, in combination with a reported resurgence of Khmer Issarak (Free Cambodian independence movement) activity, will serve to prevent restoration of internal security in Cambodia.

THAILAND

Tension continues in Thailand--Accelerated Chinese political activity, in combination with possible changes in Thai political alignments, is boosting tension in Bangkok. Prompted by rumors of Chinese plans for demonstrations in celebration of the newly-established Communist regime in China, Premier Phibul last week cautioned all Chinese in Thailand to abstain from undue political activity and warned that the Government was prepared to take any necessary measures to preserve peace and order. Subsequently, the Thai police raided the leading Chinese Communist newspaper, arrested its editor, and confiscated quantities of Chinese Communist flags and pictures of MAO Tse-tung. Currently, reports that the Chinese are planning a series of strikes, particularly among the Communist-controlled rice mill laborers, have stimulated increased security measures and may result in a general roundup of known Communists. "A"

In addition to the problem of minimizing Communist activity, Phibul is faced with the difficult task of buttressing his political position in Parliament, strengthening his cabinet and overcoming disunity in the armed forces. By attempting the merger of all pro-government elements into one party, Phibul hopes to insure successful passage of government-sponsored legislation. He is believed to be making a serious effort to attract opposition politicians to his Cabinet, thereby broadening its support. Phibul's expansion of the police, both for security and political reasons, however, is only aggravating the ill feeling between the Thai Navy and police and is arousing jealousies in the Army.

Whatever his success in these maneuvers, Phibul probably will not succeed in altering the basic alignments and schisms in Thailand which, by their very existence, contribute to that nation's political instability. While the Phibul regime may continue genuinely to oppose Communism, moreover, the susceptibility of Thai officialdom to corruption and the general Thai facility for accommodation will seriously undermine the Thai government's attempts to halt the expansion of Chinese Communist activity.

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- 7 -

INDONESIA

Indonesian intentions at The Hague—After more than a month of detailed discussion, Republican, Federalist and Dutch delegations at the Round Table Conference have reached no final agreement on any major point, although considerable progress has been made regarding the statute for the proposed Netherlands-Indonesian Union. Economic and financial negotiations, in particular, are proving to be extremely difficult. Both Republican and Federalist leaders at The Hague and in Indonesia have been anxious to expedite discussions and conclude the conference by the end of October. They threaten that if this is not accomplished, they will break off negotiations, return immediately to Indonesia, submit the problem to the UN General Assembly for discussion, and begin preparations for the assumption of sovereignty in Indonesia regardless of the Dutch. Cochran, US Delegate to the UN Commission for Indonesia, now feels that the key to the situation is for the Netherlands to approve a financial settlement bearable to the Indonesians. He believes that such a step would make it possible to conclude the conference in a comparatively short time and thus avoid the obviously grave consequences of failure. However, it is believed that Cochran himself is the actual key to the situation and that his great influence on the delegations and genius in effecting compromise represent the only hope for a successful conclusion of the conference. "B"

PHILIPPINES

US interests at stake in presidential election—The very slight lead which pro-US President Quirino appears to possess over his chief rival, the strong nationalist Jose Laurel, has significant implication for US interests in the Philippines as the 8 November presidential election approaches. "A"

In his efforts to maintain his popular position, Quirino relies largely on his claim of credit for current US rehabilitation expenditures in the Philippines and his contention that he alone is able to obtain an increase in US aid. He also has the realistic political advantage in the coming election of holding control of the Government machinery as well as patronage and the "pork barrel." Quirino's chief weakness is that his administration has been notoriously corrupt and inefficient and has been unable to solve the problem of law and order presented by continuing Huk guerrilla activity. He is also weakened by the split within his Liberal Party and the resultant presidential candidacy of the former Liberal Party boss, Senate ex-president Jose Avelino.

The principal strength of Jose Laurel, Quirino's most dangerous opponent, derives from his strong personality and the eloquent campaign oratory by which he is able to sway the masses and exploit his adversary's manifest weaknesses.

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Laurel's extremely clever campaign stresses that he is not "really" anti-US but rather pro-Filipino and that, as President of the puppet Republic under the Japanese, he protected the Philippine people from the ruthless conquerors. Laurel also claims that he will form an honest and efficient government that will warrant the people's confidence and will vigorously attack the country's economic and social problems. Laurel's primary weakness is his well-known anti-US record, which generates fear that US aid will be reduced or withdrawn if he is elected. Laurel can also expect opposition from many ex-guerrilla and anti-collaborator groups who were active in the resistance movement during the Japanese occupation.

If Quirino is re-elected, present close US-Philippine ties would be maintained and future cooperation would be assured. Some slight attempt to reduce graft and corruption would probably be made. On the other hand, the election of Laurel - a distinct possibility - would indicate weakened US influence in the Philippines and would injure US prestige in the Far East. Laurel's long record of antipathy toward the US suggests that, although he would be forced to maintain the basic Philippine orientation toward the US for the present because of the country's need for financial aid, he would be much less cooperative than Quirino and would tend to be more independent and unpredictable in both foreign and domestic policies.

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- 9 -

SECTION VIII. POPULATION PRESSURES IN (D/) FAR EAST

According to a recent publication of the UN Secretariat, the pressure of population has always been acute in the Far East. ^{1/} The discussion goes on to point out that the rate of natural increase, which in some countries is as high as 1.5 percent per annum has been maintained by a high fertility rate.

It is not the function of this estimate to criticize the statistical data appearing in any UN publication; that is very clearly the responsibility of IO/G. On the other hand, it does seem appropriate merely to criticize the statistical data appearing in the UN Publication. It is noted that the UN indicates that the rate of population increase in the Far East is "as high as 1.5 percent per annum." This is precisely the statistical data (or rather datum) that should be subjected to examination. As a matter of fact, considerable suspicion should arise from the UN's description of its datum as being "precise." Of all the datum (or rather data) on the Far East, the fertility rate is perhaps the least precise.

Fortunately, there is a device that is available for checking this fertility rate. ^{2/} The Division of the Far East, representing as it does, a complete coverage of all the countries in the region, permits a precise sample with which to test the validity of the UN's approximate fertility rate.

Before proceeding any further with this discussion, it should be pointed out that the Far East is of strategic importance to national intelligence.

In the past year precisely 8 births occurred in the (D/) Far East. The exact average of the population in the (D/) Far East during this period was approximately 40 persons. The following table presents these data in more simple form.

1/ Economic Survey of Asia and the Far East, UN 1948, page 7 ff.

2/ In this context, "checking" is used in the sense of "checking up on."

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- 10 -

Table I — Number of Births and Average Number of Individuals Residing in (D/) Far East During the 12 month period October 1948 - October 1949.

<u>No. of Births</u>	<u>Average Population</u>
8	40

From this table it is apparent that there has been 1 birth per 8 average populations. By applying a complicated statistical formula, ^{3/} the rate of increase is not "as much as 1.5%" but rather 20%! If the members of the population who have not been cleared for reproduction activities are excluded, the rate of population growth during the past 12 months, is precisely 39.8% This statistic certainly is a grave threat to the comparative production of national intelligence.

An examination of the distribution of births by sex will be instructive, if not decisive. Of the 8 births noted above, 5 have occurred among the male population of the (D/) Far East and 3 among the female population. Table II below presents these data in simple form:

Table II — Distribution by Sex of Births Occurring in the (D/) Far East During the Period October 1948 - October 1949.

<u>No. of Births</u>	<u>Sex of Population in D/FE</u>
5	Male
3	Female
0	Other

It is clear that precisely 62.5% of the births occurring in the (D/) Far East have been to male members of the population and 37.5% to female members.^{4/}

^{3/} For the benefit of the more mathematically inclined readers this formula is as follows: $\frac{B \text{ (Births)}}{P \text{ (Population)}} = (5\% \text{ increase})$

^{4/} As Table II indicates, other members of the population gave no birth.

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- 11 -

The question that arises in the light of this peculiar distribution is obvious: Why wasn't the distribution equally divided among the males and the females of D/FE? If the statistical data on which this distribution is based are valid, this is clearly just another example of the stresses and strains the population of the (D/) Far East are experiencing as a result of Communist pressure. But the statistical data are assumed to be precise; thus this is a matter for D/EE and I & S to investigate and this discussion will pursue the point no further.

This is an intelligence estimate and as such should not get into policy problems. It seems pertinent to point out, however, that unless the Chief, D/FE takes a firm hand in this whole demographoc situation (perhaps by insisting that a project proposal form be submitted through channels justifying any further population increases) the consequences of the present laissez-faire attitude will be extremely serious.

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